

**THE PRESIDENT'S 1999 BUDGET
RESPONSIBLE BUDGET STRATEGY FOR THE FUTURE?**

“The outpouring of proposals for using the anticipated surplus does not bode well for the prospect of maintaining fiscal discipline. We must not allow the recent good news on the budget to lull us into letting down our guard. Although many individual budget proposals may have merit, they must be considered in the context of a responsible budget strategy for the longer run.”

Alan Greenspan, Chairman
Board of Governors of the Federal Reserve System
Testimony, Senate Committee on the Budget
January 29, 1998

“...dissipating the now widely anticipated budget surplus (either by extra spending increases or standard tax cuts) would be far more than dumb fiscal policy. Such rash action could destabilize already skittish financial markets, where participants have been making their decisions on the expectation of budgetary soundness.”

Murray Weidenbaum, Chairman
Center for the Study of American Business
Washington University, St. Louis
January 22, 1998

The President's 1999 budget plan represents both a challenge and a contradiction. For the first time since 1969 and since the enactment of the Congressional Budget and Impoundment Control Act in 1974, the federal government is projected to register a surplus on its books next year. The President's budget plan not only projects a budget surplus for 1999 of nearly \$10 billion but also a cumulative surplus of nearly \$218 billion over the next five years.

However, this achievement has very little to do with proposals included in this budget submission and everything to do with the strength of the economy and past budget policies enacted beginning with the 1990 law that established caps on federal spending and created

procedures to offset new mandatory spending or tax reductions (pay-go). According to documents transmitted with the President's budget today, if all federal policies were left unchanged -- spending caps established in last year's budget agreement left unchanged -- a surplus would be achieved in 1999 of nearly \$6.0 billion and \$218 billion over the next five years.

The challenge for decision makers in this election year is to maintain the discipline of last year's historic Bipartisan Budget Agreement and to preserve and protect anticipated surpluses at a time of both domestic and international economic uncertainty and before major demographic pressures mount early in the next century. The contradiction in the President's 1999 budget is the appearance of maintaining the discipline of the Bipartisan Budget Agreement, while redefining the role of the federal government to include major new spending initiatives. On its face the President's budget does abide by last year's agreement, but it violates the spirit of that agreement by proposing nearly \$150 billion in new spending and tax expenditures/credits over the next five years while not appearing to terminate or eliminate a single federal program.

The President's 1999 Budget: A Contradiction

Federal spending in the President's budget is expected to increase from \$1.668 trillion this year to over \$1.945 trillion in 2003. Total federal spending over the next five years would reach nearly \$9.2 trillion. Spending would grow annually 3.1 percent. Revenues and receipts will grow from \$1.658 trillion this year to over \$2.028 trillion in 2003, a total of \$9.376 trillion in receipts over the next five years.

The President's budget proposes to increase mandatory spending programs by nearly \$22 billion. New spending and tax credit initiatives in the President's budget with costs over the next five years follow:

(1) Funds for America -- Research, Environment, and Transportation	\$14 billion.
(2) Child care spending	\$ 7 billion.
(3) Teachers/Early Learning Funds	\$ 8 billion.
(4) Student Loans	\$ 3 billion.
(5) Immigrants	\$ 2.5 billion.
(6) Medicare	\$ 2.1 billion.
(7) Tobacco legislation activities authorized	\$22.3 billion.
(8) Child care tax credit	\$5.6 billion.
(9) Energy and environmental tax credits	\$3.6 billion.
(10) School construction tax credits	\$5.0 billion.

Receipts would grow faster than expenditures, rising annually at nearly 4.1 percent. **For 1999, the President's budget estimates total federal receipts topping a historic high of 20.1**

percent of GDP. The only other time in history when federal receipts exceeded 20.0 percent of GDP was during the war years of 1944 (20.9 percent) and 1945 (20.4 percent).

PRESIDENT'S BUDGET FOR 1999							
(\$ Billions)							
	1997 Actual	1998	1999	2000	2001	2002	2003
Spending	1,601	1,668	1,733	1,785	1,834	1,860	1,945
Revenues	1,579	1,658	1,742	1,793	1,863	1,949	2,028
Deficit/Surplus	-22	-10	+10	+9	+28	+90	+83
Debt subject to limit	5,328	5,506	5,701	5,880	6,044	6,170	6,304

How does the President's budget propose to abide by the Bipartisan Budget Agreement reached in 1997 and still increase spending nearly \$123 billion, provide \$25 billion in new tax credits, and increase civilian nondefense employment by 9,200? Through increasing taxes and fees by at least \$105 billion -- primarily on the assumption that tobacco revenues will be collected totaling \$65.5 billion, extending Superfund taxes nearly \$7.5 billion, increasing taxes on businesses by over \$24 billion through the creation, elimination or modification of 40 provisions in the tax code.

The primary spending offset included in the President's budget are savings of \$17 billion from veterans programs from eliminating compensation for tobacco-related illnesses (a technical baseline assumption -- no current benefits would be reduced), \$2.4 billion from reducing fraud in the Medicare program, restructuring the Export Enhancement Program (\$1.4 billion savings) and a further elimination of reserves held by agencies making student loans.

SUMMARY OF PRESIDENT'S BUDGET FOR 1999
(\$ Billions)

	1999	2000	2001	2002	2003	5-year Total
Current services capped surplus	5.6	5.2	27.8	90.3	89.1	
Discretionary	+4.8	+8.4	+10.2	+15.6	+21.7	+60.7
Mandatory	+4.3	+3.2	+6.4	+3.9	+3.5	+21.2
Revenues (net)	-12.9	-14.7	-16.7	-18.5	-18.8	-81.5
<i>Tax cut</i>	+3.2	+5.1	+5.5	+5.0	+5.4	+24.2
Debt service	-0.1	-0.2	-0.4	-0.4	-0.2	-1.3
Total deficit impact	-3.9	-3.3	-0.4	+0.6	+6.3	---
Resulting deficit/surplus	+9.5	+8.5	+28.2	+89.7	+82.8	

AGGREGATE BUDGET TOTALS
(\$ Billions)

	1998	1999	2000	2001	2002	2003	5-year Total
Discretionary:							
Defense	265	267	270	271	273	289	1,370
Nondefense	288	300	304	304	304	306	1,518
Subtotal	553	567	574	575	577	595	2,888
Mandatory:							
Medicare	195	205	214	230	232	253	1,134
Medicaid	101	108	115	123	133	143	622
Social Security	378	393	409	427	447	468	2,144
Other mandatory	198	219	237	246	244	265	1,211
Subtotal	872	925	975	1,026	1,056	1,129	5,111
Net interest	243	242	236	234	227	221	1,160
Total spending	1,668	1,733	1,785	1,834	1,860	1,945	9,657
Revenues	1,657	1,743	1,794	1,863	1,949	2,028	9,377
Deficit/surplus	-10	+10	+9	+28	+90	+83	

The President's 1999 budget plan represents a challenge. To expand government as the President has proposed, before surpluses have actually been booked, and to build the public's

expectations that spending can increase without jeopardizing the fiscal balance worked so hard to achieve, will require more debate and discussion. Not highlighting the spending or tax offsets required to expand government as the President has proposed, may create false impressions with the public. But equally, just as the President can suggest taxes to increase spending, Congress could argue that the same offsets be used to reduce taxes. Such a proposal would be justified based on the historic high level of taxes in the country today. It is a challenge both to the Congress and the President to confront these choices in a way that maintains the long-term fiscal balance worked so hard to achieve in recent years.. Absent a common understanding between taxes and spending in an election year, maintaining current policy may be the best short term outcome for America's long term future.

COMPARISON OF BASELINE DEFICITS (-) or SURPLUS
(\$ Billions)

	1998	1999	2000	2001	2002	2003	1999-03
OMB	-9.9	5.6	5.2	27.8	90.3	89.1	218.0
CBO	-5.5	-2.1	-3.4	14.0	69.4	54.1	132.0
Difference (OMB v CBO)	+4.4	+7.7	+8.6	+13.8	+20.9	+35.0	+86.0
